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North Carolina currently imposes a sales tax of 1 percent on the purchase price of machinery, parts or accessories used in manufacturing. The maximum tax is $80.00 per article. There is a legislative proposal to increase this rate to 4.75 percent with a maximum tax of $500.00 per article.

While it may seem to some that the proposed manufacturing rate change is essentially a tax increase from $80 to $500, this is not the case. Consider that Cree purchases many items that would not qualify for the maximum tax per article, such as items like gas that is purchased in bulk (which is not eligible for the $80 cap) or lower dollar high volume items. A 3.75 percent tax increase is quite significant tax for Cree. For example, Cree recently purchased 50 parts at a cost of $3K each. Under the current tax structure, Cree would owe tax of $1.5K on this purchase. Under the proposed tax structure, Cree would owe tax of $7K. Based on Cree's purchasing volume from March to May 2015, we estimate that Cree's **monthly** tax liability would increase by $400K+. This translates to an additional burden of ~$5M annually for Cree which would be recorded as an additional cost to the manufacturing of our products here in North Carolina.

Even under its current structure (1% tax), North Carolina manufacturers are **already** disadvantaged compared to surrounding states. For example, Georgia, South Carolina, Tennessee, and Virginia have **complete** exemptions for manufacturing equipment and supplies as does Wisconsin, a state in which Cree already has a significant presence. Further, Georgia, South Carolina, and Virginia have integrated plant theories which broaden the exemption from sales tax unlike North Carolina's direct use test in which the current 1percent tax (proposed to be 4.75 percent) is eligible.